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Coursework Title:

Individual Case Study Essay

WALMART IN CHINA

Candidate Number: 849575

Introduction:

Walmart is an American multinational retail corporation that operates a chain of hypermarkets, discount department stores and grocery stores from the United States, headquartered in Bentonville, Arkansas. It also owns and operates Sam's Club retail warehouses. Walmart is the world's largest company by revenue and also the largest private employer in the world with 2.2 million employees.

The company was founded by Sam Walton in 1962 and is a publicly traded family-owned business, as the company is controlled by the Walton family.

As of January 21, 2022, Walmart has 10,593 stores and clubs in 24 countries, operating under 48 different names. Walmart's investments outside the U.S. have seen mixed results. It has seen success in Canada, Central and South America while its ventures failed in Germany, Japan and South Korea (wikipedia.org, 2022).

This case study essay is about Walmart's business venture in China and the various political, social, cultural and geographical problems it faced when it entered the market before seizing a respectable portion of the Chinese retail market.

The case study also analysis the total business environment of China, its various income segments and recommends strategic approaches in doing business with them.

Question 1:

1) A Microenvironment consists of factors or elements that are in the immediate environment of an organization which affect its performance and decision making. It is one of the parts of the Total Business Environment that the company has some level of control over.

The main elements of a Microenvironment are:

- Competitors
- Suppliers
- Customers
- Intermediaries
- General Public

This analysis of Walmart in China will give an insight on its Microenvironment using Porter's Five Forces model (Porter, M.E., 1997):

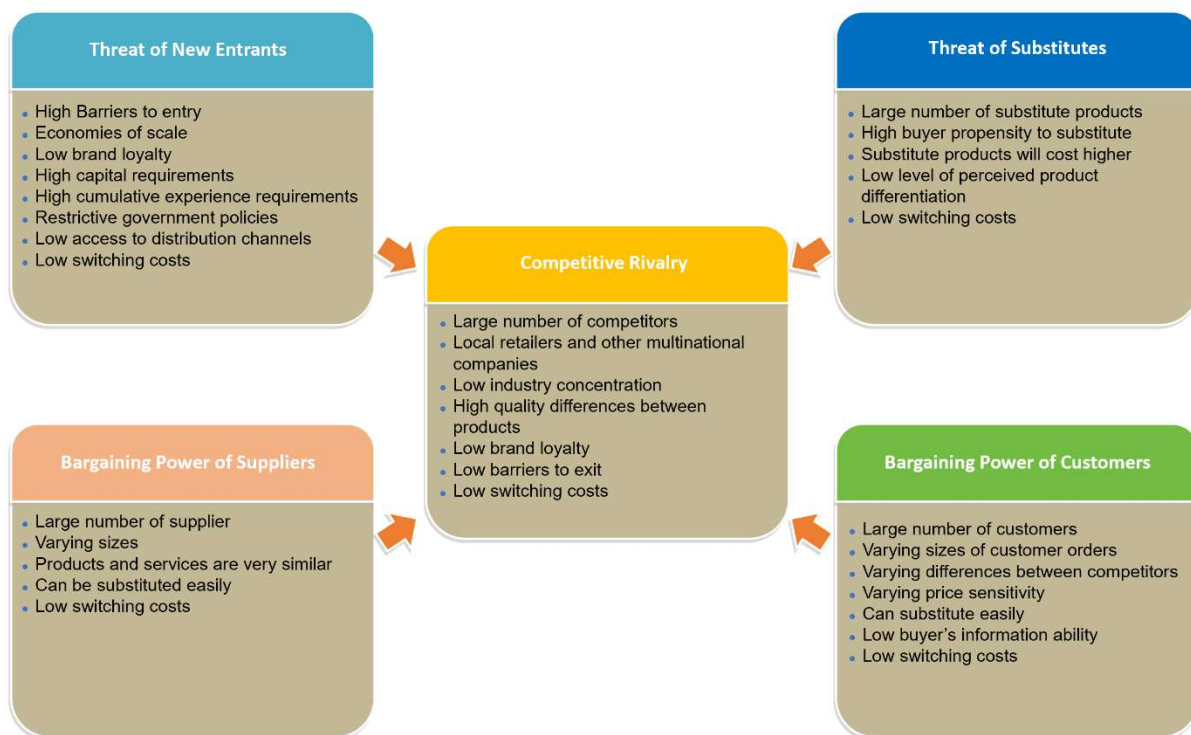


Figure 1: Porter's Five Forces Factors

From the model it can be concluded that China is a very lucrative market with highly competitive rivalry and strong buyer power along with weak supplier power. It is difficult for new threats to enter this market and substitutes can rarely offer the same convenience as the pre-existing products. The major elements of the microenvironment are further analyzed below:

Competitors are what keeps the market thriving and influence a company's products and services. The main competitors for Walmart in China in 1996, were from the local retailers and other foreign retailer organizations trying to take advantage of the country granting permission to enter it through Joint Ventures with Chinese firms in 1992 (Qixun Siebers, L., 2011). Now in 2022, The American retailer faces stiff competition from other multinational retailers and Chinese retail super giants which offer offline and online retailing leaving Walmart with barely 6 percent of the Market Share. (Chinadaily.com.cn, 2022)

The per capita income of the country has risen significantly the last two decades but it remains low, at slightly over 10,000 USD. China claims to have eliminated extreme poverty which is having an income less than 2.3 USD per day but only 400 million of its 1.4 billion population have reached middle class status. This has resulted in slowdown in population growth. (Ambest, 2021).

There is a huge disparity in the distribution of wealth within the Chinese society with over a billion people in the low income segment and only around 10 percent of the population is part of the high income segment. In between these two income segments exists the middle class whose numbers are slowly rising along with their disposable incomes.

Over 95 percent of Walmart's merchandise comes from local Chinese sources. In the US, it is estimated that Chinese Suppliers make up 70-80 percent of Walmart's Merchandise, leaving less than 20 percent for American-made products (Alliance for American Manufacturing, 2022). The labor is also recruited locally.

2)The main reason for Walmart not being successful in China is mainly due to its inability to react accordingly to the various macroenvironmental factors of the Chinese market.

The various macroenvironmental factors in China can be summarized using a PESTEL Analysis:

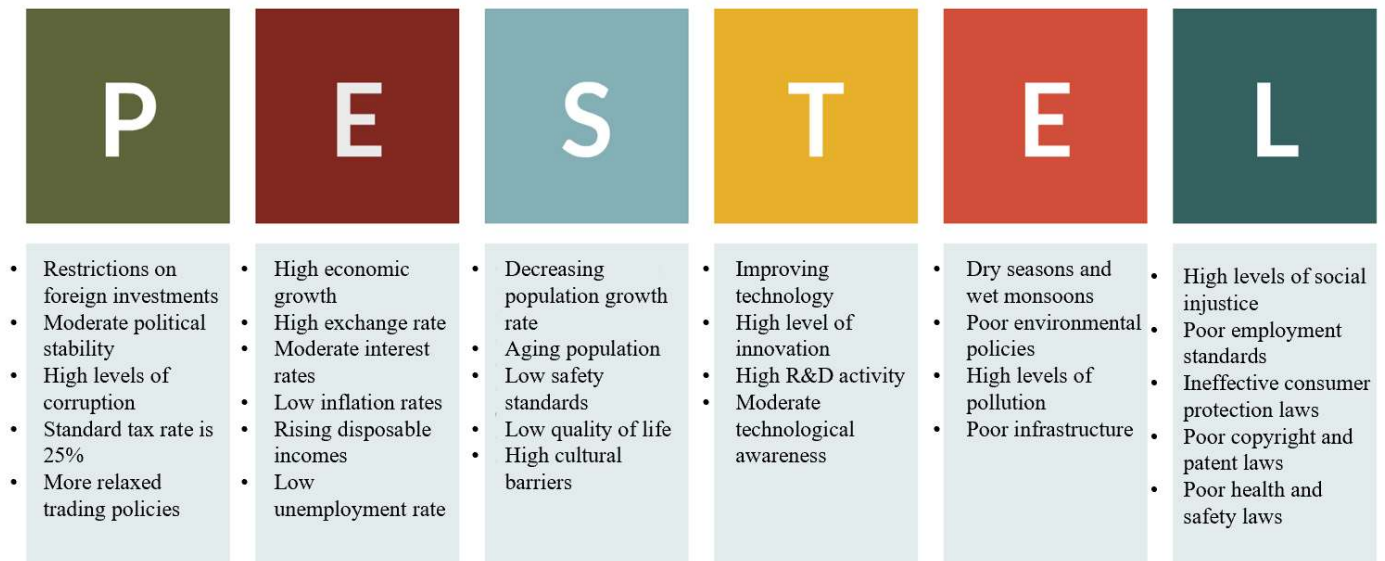


Figure 2: PESTEL analysis of Macroenvironment of China

From the analysis, it can be seen observed that China is not a homogenous market but a diverse one. With 65 major cities, 31 provinces, 56 ethnic groups, seven major dialects, and variety of customs depending on region. This makes it challenging to sell a core set of products nationwide. Walmart’s “Every Day Low Prices” strategy is perceived as cheap and unsafe among the Chinese populace who are used to correlate products with higher prices with authenticity and quality (Fortune, 2016)

The political situation is not in favor of Walmart either, the company has a huge misinterpretation of how the legal system works in China. Developing countries like China, have fractured laws where national laws are often seen as guidelines for local regulators, who often prosecute foreign companies for minor mishaps while ignoring similar cases for the local competitors (M-Brain, 2015).

The macro-economic environment has also not been beneficial for Walmart's growth in China. The recent slowdown in the Chinese economic growth has affected the retailer's sales significantly. The Chinese GDP growth rate's deceleration has in turn slowed down the country's salary growth which has severely impacted its consumer spending and retail sales. (Team, T., 2014)

One of the biggest reasons for Walmart's shortcomings in China is due to the country's problematic and underdeveloped economic infrastructure which cannot accommodate one of Walmart's greatest strengths: an ultra-efficient and technologically advanced supply chain. China lacks a sophisticated technological and physical infrastructure preventing the efficient transport of goods from one region to another making it challenging for Walmart to generate profits (Fortune, 2016).

Question 2:

The subdivisions (a) and (b) can be answered together by using the principle of STP Marketing which involves Segmentation, Targeting and Positioning of the various income groups of the Chinese market.

The case study can be made simpler using a SWOT analysis of Walmart:

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strengths <ul style="list-style-type: none">1) Ultra efficient and technologically advanced supply chain2) Great brand name as the world's largest retailer.3) Ability to sell products at extremely low prices4) Different kinds of stores for different kinds of customers (Hypermarkets, Sam's Club)5) Offers omnichannel retailing | Weaknesses <ul style="list-style-type: none">1) Inability to accommodate Chinese consumer culture2) Inability to use all its resources and capabilities within the Chinese Market3) Walmart products are not well received by the skeptic Chinese consumers due to their low prices |
| Opportunities <ul style="list-style-type: none">1) Population of 1.4 Billion people with rising disposable income among the middle class2) Large amount of price insensitive customers within the upper middle and upper class populace3) China can serve as a main component for Walmart's long term sustainability | Threats <ul style="list-style-type: none">1) Local Retailers within the country (eg : Sun-Art, RT-Mart)2) Rival Foreign Retailers (Eg: Carrefour, Tesco)3) High levels of corruption with in the Chinese government and legal hurdles4) Poor Chinese Economic infrastructure |

Figure 3: SWOT Analysis of Walmart

According to the International Trade Administration website, “The Chinese consumer market has been the driving force behind the continuous development of China’s economic structure. Chinese consumers are willing and eager to pay higher prices for higher-quality and brand-name products. Chinese private consumption is already a contributing factor in boosting China’s economy and should continue to see growth for years to come”. (Trade.gov, 2022)

Below is a graph showcasing the increase in Chinese Consumer Expenditure from 2009 to 2020.

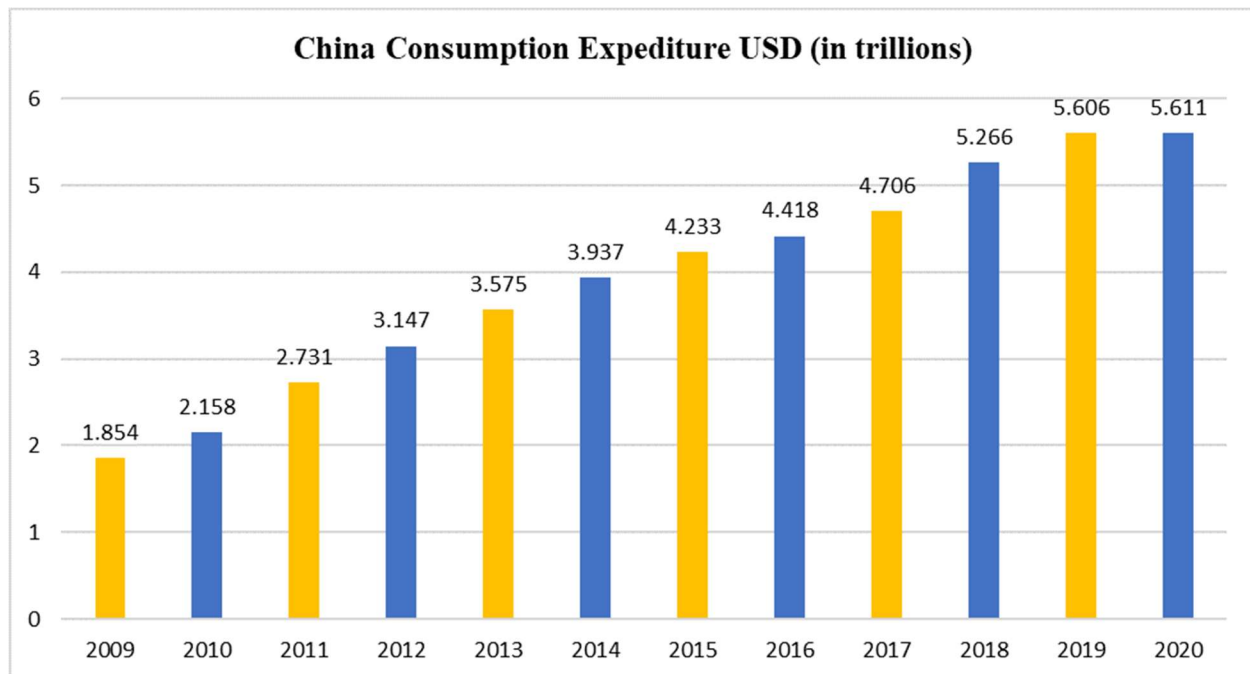


Figure 4: China Consumption Expenditure (USD trillions) 2009 – 2020 (Ceicdata.com, 2020)

China is an emerging market with a huge population but according to the 2021 AMBEST Country Risk Report on China, only 400 million out of 1.4 billion people are in the middle class. There is a huge disparity of purchasing power between the various income segments. Therefore, market segmentation is done based on income levels and they are divided into three categories: Low income, Middle income and High income segments. Each segment is analyzed for the various opportunities and challenges it brings forth and an appropriate market positioning strategy is recommended to enhance the prospect of Walmart in China.

Breakdown of Class Income Bands

| Income Band | Daily Income | Annual Income |
|--------------|--------------|--------------------|
| Poor | <\$2 | <\$730 |
| Low | \$2 – \$10 | \$730 – \$3,650 |
| Lower-middle | \$10 – \$20 | \$3,650 – \$7,300 |
| Upper-middle | \$20 – \$50 | \$7,300 – \$18,250 |
| High | >\$50 | >\$18,250 |

Figure 5: Annual income of various income segments of China (ChinaPower Project, 2022)

Low Income Segment:

According to the World Bank, ever since China began to open up and reform its economy in 1978, GDP growth has averaged almost 10 percent a year, and more than 800 million people have been lifted out of poverty. But despite its best efforts, around a billion of China's population is still in the low income segment (Ambest, 2021).

Due to the low purchasing capabilities of this income segment, its members have no choice but to be price sensitive.

Therefore, Walmart needs to create a low income strategy to take advantage of this large income segment with several opportunities but this comes with some challenges as well.

Opportunities:

- 1) Access to an extremely large number of potential customers
- 2) Profits can be generated through selling in large volumes
- 3) Lower income customers can be retained as middle income customers when they earn more in the future.
- 4) Rural areas will have less competition compared to the cities

Challenges:

- 1) Lower Income customers are extremely price conscious
- 2) Lower income customers are harder to market due to their prior inhibitions about foreign elements.
- 3) Geographically, they are more difficult to access since they are mainly found in rural and the poorer sections of cities.
- 4) Creating a shopping environment which appeals to the extremely diverse populace.

Marketing in a nutshell is putting the right product in the right place for the right price at the right time. The positioning of the firm's products and services can be determined using the marketing mix (4 p's).



Figure 6: Marketing Mix (4 P's) for Low Income Segments

From the analysis it can be concluded that the best market positioning strategy for low income groups would be undifferentiated or mass marketing which targets a large number of people in an area with standardized products.

Walmart has found success by adopting a bare-bones model of a “compact hypermarket” used in their Latin American stores for various provinces in China. These stores are comparatively smaller and have basic decorations. The return on investment of these compact stores is equal to the normal supermarkets that are more than twice the size (Terradaily.com, 2014).

The cost of operating these compact stores is lower and this allows Walmart to sell its products to the lower income segments at lower prices and at the same time generate profits by selling high volumes through multiple stores throughout the country.

Middle Income Segment:

By the virtue of globalization and the transformative reforms of the Chinese government, hundreds of millions of Chinese citizens have seen wage increases leading to higher disposable incomes after generations of endemic poverty. This has led to the middle class having extra money after paying for their basic necessities which could be spent on consumer products or even luxury goods and services.

This income segment is gradually on the rise and it is expected to comprise of almost half of the country’s urban population in the future. The middle income segment can be further divided into lower middle and upper middle income segments which have a wide variety of needs and preferences. The buying decisions of this income segment are not always price driven. They are more inclined towards tailor-made products and a shopping environment that reflects local preferences.

It is imperative for Walmart to gain a significant market share of this income segment for its long term sustainability and growth in China but this comes with some challenges as well.

Opportunities:

- 1) Ever growing customer base with rising disposable incomes
- 2) These customers are less price sensitive and are even willing to pay a premium if the product enhances their image
- 3) Omnichannel retailing is well received and desired by this income group
- 4) Upper middle class consumers can be potential clients to luxury products and services

Challenges:

- 1) Walmart's EDLP strategy is perceived to be cheap and unsafe in China due to the low prices it puts forth
- 2) Local retailers have a better understanding of the market and its consumer's preferences and prove to be tough competitors
- 3) Choosing the right products and the right prices for the various regions while generating profits

The positioning of the firm's products and services can be determined using the marketing mix (4 p's).

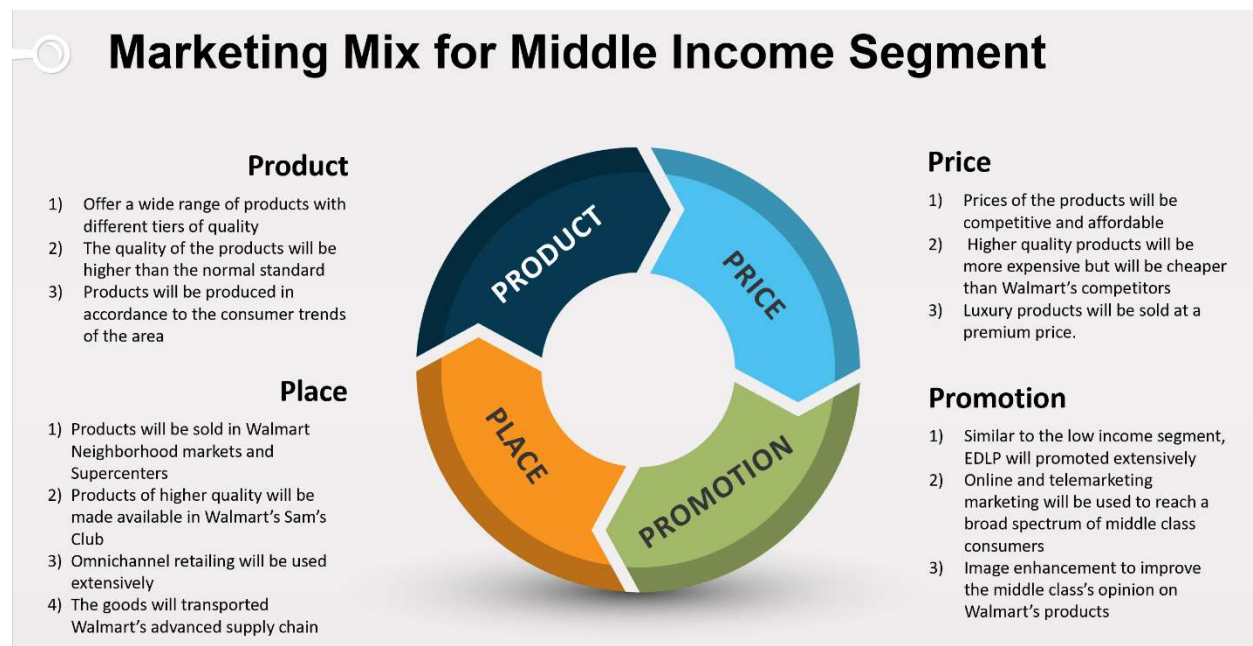


Figure 7: Marketing Mix (4 P's) for Middle Income Segments

From the analysis it can be concluded that the best market positioning strategy for middle income groups would be differentiated or multi-segmented marketing which targets a broad range of consumers with highly differentiated offerings to appeal to the various needs and requirements of the complex middle income segment.

By increasing the range of its offerings Walmart can increase the satisfaction of its customers. Walmart's neighborhood markets and Superstores enables the company to target residents in large and prosperous communities. Effective implementation of its omnichannel retailing capabilities can enhance the shopping experience of the middle class consumers. A secure online shopping platform is the best way to reach the entire Chinese market.

Investing in customer market research is essential as it will provide Walmart insight on how to localize its products hence aligning with the Chinese culture. Product differentiation will enable the firm to adjust its pricing strategy successfully by integrating premium pricing. Thus, the firm will succeed in communicating the value and quality of its products.

Despite it being more expensive for the company compared to mass marketing, high levels of profits can be accumulated by charging higher prices and the less price conscious middle income segment customers will be more than willing to pay the premium price for better and higher quality products.

High Income Segment:

The Chinese high income segment consists of around 10 % of the entire population of China. This income segment if marketed in the right manner will prove to be extremely lucrative for Walmart. High income earners have no qualms on spending huge amounts of money in exchange for high quality and luxury products. They are extremely conscious of their image in society and mostly prefer international and branded items over products that are made in China. Exclusivity is the key term to emphasize when Walmart markets the most affluent income segment in China. But with such great opportunities, Walmart would face challenges as well.

Opportunities:

- 1) Access to a customer base with extremely high purchasing power
- 2) Great market for selling premium luxury products for high prices
- 3) Opportunity to export high quality international products as they are more preferred by this income segment
- 4) The middle upper classes are also potential customers

Challenges:

- 1) Walmart's brand value may not be regarded fitting for the upper class due to its focus on the EDLP strategy
- 2) It would be difficult to impress the high earning segment as they have a lot of options to choose from
- 3) Convincing the affluent populace to choose Walmart over other brands that offer premium products.

The positioning of the firm's products and services can be determined using the marketing mix (4 p's).



Figure 8: Marketing Mix (4 P's) for High Income Segments

From the analysis it can be concluded that the best market positioning strategy for high income groups would be concentrated or niche marketing where the company tries to address the needs of a specific group of people. The market for premium and luxury products is quite niche compared to the normal retail market but it is extremely lucrative.

Walmart can secure a dominant position in this income segment through its premium Sam's Club superstores. This would enable Walmart to address the customer's image enhancement needs by stocking high quality brands from the international market. The firm's Sam's Club stores operate as a membership store, which ensures that members are offered hospitable treatment.

For the affluent shopper, time is money and Walmart can make shopping time efficient. Two-day delivery, curbside pickup and more self-checkout stations can be designed to give customers fast, efficient access to its product range. The promotion of its e-commerce platform is quintessential, making its high quality products more accessible.

The best way for Walmart to succeed in this income segment is through the beach head strategy where the company focuses on one sector of its portfolio [e.g.: Organic products similar to Whole Foods] and later on expand after building up a respectable image for its target consumers.

Question 3:

According to the Bartlett and Goshal Model of International Growth, when a firm operates internationally, it must try to strike the right balance between Global Integration and Local Responsiveness where Global Integration is the necessity for standardization and central control to reduce the cost through scale economies while Local Responsiveness is the necessity for meeting the specific needs of buyers in individual countries.

From this, four basic strategic approaches for doing business internationally can be devised depending on the pressures for cost reduction and local responsiveness:

- Global
- Transnational
- International (Home Replication)
- Multidomestic (Localization)

(From Learning Chunk 2: "Global Integration vs Local Responsiveness").

Using the analysis of the three income segments from question 2, suitable strategic approaches can be assigned to each of them.

For an international market which is as complex and diverse as China, Walmart will need to approach each income segment with different strategies. But the primary approach will be the company thinking globally but acting locally to find a strategic sweet spot where it meets the customer's needs in a way rivals cannot. This is further combined with other strategies depending on the income segment involved.

Low Income Segment:

This income segment is particularly difficult for Walmart to break into due to the complexity of its populace and their various requirements. These customers need products that are suitable for their taste but at the same time, they need to be cheap.

The transnational strategy would be appropriate for this income segment as cost pressures as well as local responsiveness are intense. This strategy tries to simultaneously achieve low costs through location economies, economies of scale and learning effects.

This strategy would allow Walmart to differentiate their product offering across geographic markets to account for local differences and make profits by taking advantage of the large customer base and selling high volumes of their products.

This would be very complex to achieve but the pros outweigh the cons as capturing a high number of loyal customers in this group would be beneficial to Walmart when they move up into the middle class income group which will definitely happen in the foreseeable future due to the various social reforms by the Chinese government.

Middle Income Segment:

The middle class in China is an income segment with rising disposable incomes and is constantly on the rise. They seek higher quality products that enhance their social status. The people on the higher end of this segment are willing to pay a higher price in exchange for more luxury while those on the lower end simply desire a variety of products to choose from.

The Localization or Multidomestic strategy would be the best fit for this income segment as this strategy would account for the substantial differences across the nation with regard to consumer tastes and preferences. The pressure for reducing costs is also not intense allowing the firm to focus on increasing profitability by customizing its goods or services.

Localization would allow Walmart to provide a good match to the tastes and preferences in different national markets and aim to maximize benefits of meeting local market needs through extensive customization.

High Income Segment:

This income segment of China amounts to only 10 percent of the total population but they are extremely important customers purely due to their extremely large spending power. Price is not an issue for them and they are more than happy to spend extravagant amounts of money for the sake of luxury. This income group mainly prefers branded and international products over local products made in China.

The perfect strategy for this income group would be home replication also known as the international strategy. This income segment comes with low pressures for cost reduction and local responsiveness. High income customers want premium quality and exclusivity over everything else. The international strategy involves taking such products first produced for foreign markets and then selling them with only minimal local customization. This makes it easy for the firm to generate profits as long as there is demand.

The various strategies for each income groups have been recommended but each income groups are not forced to just stay within those recommended markets. Walmart needs to conduct its business in such a way that anyone from any income group would feel welcome in any of their stores.

The Bartlett and Goshal Matrix:

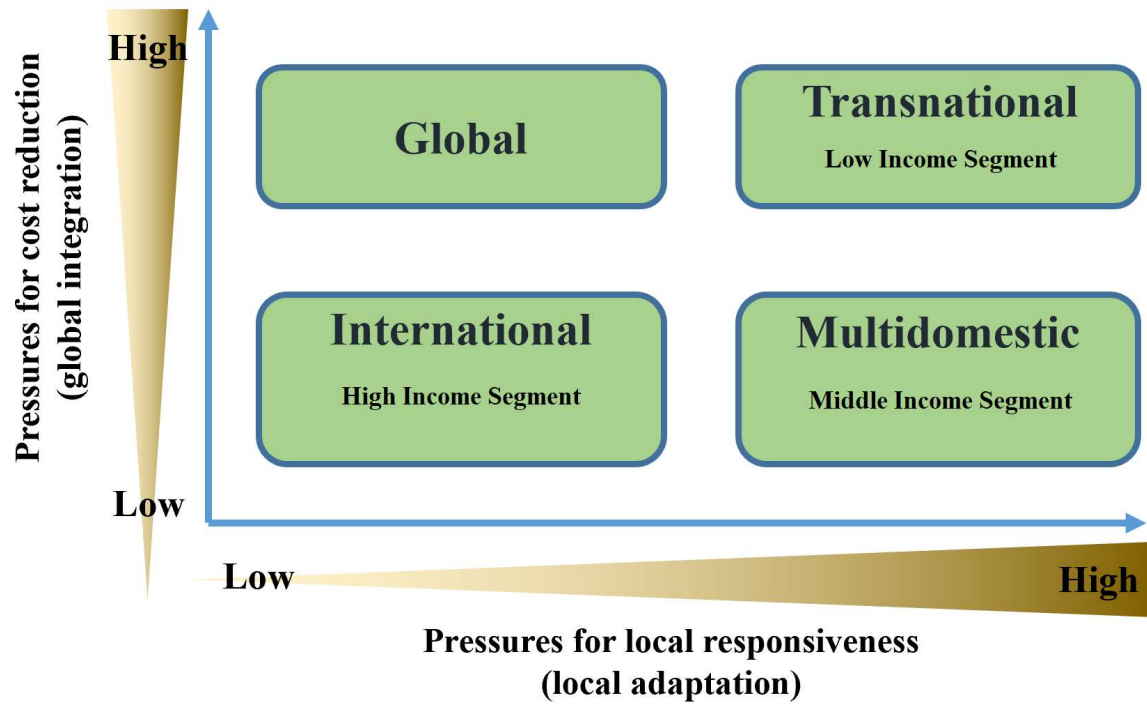


Figure 9: Bartlett and Goshal Matrix for the various income segments of China

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